

Executive Summary

Section 2207 Report to Congress

October 2008

Continued improvement in the security situation in the third quarter of 2008 has provided space for political and economic development in Iraq. The Iraqi government continues to take more responsibility for promoting this development, assisted by U.S. capacity-building efforts and reflected in its increasing ability and will to make capital investments. The Government of Iraq (GOI) has steadily improved its budget execution, and the U.S. Mission in Iraq continues to assist the GOI to keep this positive trend on track.

The United States continued in the last quarter to provide civilian assistance to the Iraqi people and their national, regional, and provincial governments. Assistance through the Iraq Relief and Reconstruction Fund (IRRF) has entered its final stage. \$19.4 billion of the \$20.9 billion IRRF appropriation has been spent; the remainder will be spent on existing obligations and can no longer be reprogrammed to new priorities. The conclusion of IRRF funding and the impending completion of IRRF-funded projects – expected in 2009 – accompany an ongoing shift in the nature of U.S. assistance to Iraq. Increasingly, funds from IRRF and the other appropriations covered in this report have supported technical assistance and capacity building efforts designed to increase the Iraqi government's self-sufficiency and strengthen Iraq's civil society.

Iraq Relief and Reconstruction Fund (IRRF) Summary

September 30 marked the end of the legal authority to reprogram IRRF funds that have already been obligated. The closure of IRRF serves as a milestone in U.S. assistance to Iraq and largely marks the end of major U.S. reconstruction. The embassy's Iraq Transition Assistance Office (ITAO) in Baghdad is working closely with its implementing partners, the U.S. Army Corps of Engineers (USACE)/Gulf Region Division (GRD) and embassy sections to complete the few projects remaining and to ensure the full transfer of U.S.-funded capital assets to the GOI. Forty contracts were completed this quarter using IRRF funding. Highlights of projects completed this quarter include:

- **Completion of the \$80 million Operations, Maintenance, & Sustainment program (OMS) project.** This program trained Iraqis at six of Iraq's largest power plants to perform a host of progressive and preventive maintenance safety and plant operations protocol. As a direct result of the OMS program, after just three months of operation, there was a 30-percent increase in output/efficiency compared to the previous year. Since completion of the project, the GOI now independently implements the program and contracts.
- **Completion of the new sewer network in Kamaliya (Baghdad).** This \$33.5 million project will benefit over 175,000 of the poorest residents in the New Baghdad area by reducing disease with crucial infrastructure.

The IRRF program consisted of \$20.9 billion appropriated by Congress. As of September 30, \$20.1 billion (97 percent) has been obligated and \$19.4 billion (93 percent) has been disbursed. (These sums include both IRRF I and II appropriations, although this report and the Status of Funds chart that accompany it have focused on the much larger IRRF II appropriation.) The \$1.5 billion of IRRF funds remaining to be expended falls under the following three major categories.

- Approximately 35 on-going reconstruction projects to be completed in Fiscal Year 2009;
- Obligations being retained on contracts with known Requests for Equitable Adjustments, that is, adjustments to the cost of contracts that fall within the contract's scope;
- Recently obligated projects focused on traditional foreign assistance programs.

Additionally, \$50 million in IRRF funds were subject to a Congressional rescission.

Key Accomplishments:

Sector	Key Metrics
Electricity	▪ To date, 1,437 total IRRF electricity sector projects have been completed. ▪ Average daily hours of power this quarter after meeting demand from essential services: • Nationwide: 13.2 hours, up from 10.3 hours last quarter • Baghdad: 11.6 hours, up from 9.1 hours last quarter • Basrah: 18.2 hours, up from 17.7 hours last quarter ▪ Average daily electricity supply post-war record peak of 122,404 megawatt hours (MWH), up from 103,000 MWH last quarter. ▪ Average daily peak supply reached 5,294 MW, up from 4,470 MW the previous quarter.
Justice, Public Safety, and Civil Society	▪ To date, 9,285 total IRRF justice and civil society sector projects have been completed. ▪ This quarter, four courthouses were completed in Basrah, Baghdad, Diyala, and Ninawa, and a police station was completed in Thi Qar.
Health	▪ To date, 804 total IRRF health sector projects have been completed. ▪ Seventeen Primary health care clinics were completed this quarter. ▪ Two hospital modernization projects were completed this quarter, located in Baghdad and Hillah.
Oil	▪ To date, 509 total IRRF oil sector projects have been completed.

	▪ Oil production averaged 2.5 million barrels per day, up from 2.48 million last quarter. ▪ Oil exports averaged 1.8 million barrels per day, up from 1.76 in the previous quarter.
Transportation and Communications	▪ To date, 457 total IRRF transportation and communication sector projects have been completed. ▪ The navigations systems at Baghdad International Airport were upgraded for \$1.8 million.
Water	▪ To date, 1,615 total IRRF water sector projects have been completed. ▪ Three pump stations were completed this quarter in Baghdad, Wasit, and Salah ad Din provinces.

Provincial Reconstruction Teams (PRTs)

PRTs are a critical element of the U.S. focus on capacity building for institutions and elected officials and have the flexibility to respond quickly to improved security conditions on the ground by immediately increasing activities. PRTs provide assistance and create relationships at the local level that are integral to the goal of rehabilitating Iraq. There are currently 29 PRTs throughout Iraq, including embedded PRTs (ePRTs) working within Brigade Combat Teams and Provincial Support Teams (PSTs). They are staffed by approximately 800 personnel from the Department of State, the Department of Defense, the U.S. Agency for International Development (USAID), and other agencies.

By providing critical expertise in support of Iraqi needs, PRTs extend the reach of the U.S. Mission and facilitate essential capacity building programs. PRTs engage provincial and local officials in five key areas: democratic governance, political development, reconciliation, economic growth, and rule of law. While the main focus of the PRTs in budget execution is assisting the provincial governments to spend effectively the much larger pool of GOI funds (\$3.4 billion was allocated by the GOI to the 18 provinces in FY 2008), as described below, PRTs work with Iraqis to help implement programs funded through the Quick Response Fund and Provincial Reconstruction Development Councils.

Economic Support Funds (ESF) Summary

The U.S. Mission in Iraq continued to implement programs funded by non-IRRF appropriations and under the administration of several agencies. These programs focus on promoting institutional reforms and increasing the capacity of Iraqi institutions. The PRTs and the Iraqi Provincial Reconstruction Development Councils (PRDC) continue to work closely together to enhance local capacity and the ability to respond to local needs. PRTs continue to improve upon micro-purchase programs that provide a flexible mechanism to meet immediate, critical needs at the local level. Programs to generate new employment opportunities have expanded throughout the country and focus on providing Iraqis with the tools necessary for a sustainable workforce.

Key ESF program accomplishments this quarter include:

- **Ambassador's Targeted Development Program (TDP):** This program provides the U.S. embassy and the ambassador with a valuable tool for supporting economic and social initiatives in areas of conflict in Iraq. This quarter, the ambassador approved 13 grants totaling more than \$28.2 million to non-governmental organizations (NGOs) active in Iraq. This completes the program, bringing its total to 34 approved grants with a total value of \$57.4 million. This quarter's grants covered a variety of initiatives, including a continuing medical education program, a women's social and legal center, and a hygienic agriculture program.
- **PRT Quick Response Fund (QRF):** The Quick Response Fund promotes economic and social development at the provincial level through short-term, small-scale projects. PRT staff work with Iraqis in their communities to identify worthy local projects that build the capacity of neighborhood and local government officials to deliver services transparently, to empower women and youth, and to support civil society and small businesses. To date, 326 grants, 202 procurement proposals, and 1,500 micro-purchases have been approved, with a total value of more than \$68 million.
- **Infrastructure Security Program (ISP):** ISP is a \$227 million initiative responsible for programs to provide security for oil, water, and electricity infrastructure, including the creation of pipeline exclusion zones. ISP improves critical infrastructure to withstand interdiction attempts and supplements existing oil export facilities with additional resources in order to ensure continuity of crude oil exports. Currently there are 55 total projects, of which 10 are in the planning phase or pre-solicitation.
- **Local Governance Program (LGP):** This program promotes diverse and representative citizen participation in provincial, municipal, and local councils, working with Iraqis in all 18 provinces and actively complementing PRT initiatives. In August, LGP assisted efforts by provincial governors, provincial strategy committees, and ministry planners to better link public capital expenditure to strategic plans and objectives, resulting in timely and better-supported submissions for the FY 2009 budget.
- **Provincial Reconstruction Development Councils (PRDC):** PRDC funds support smaller-scale, provincial-level infrastructure projects identified by Iraqi councils – with PRT advice – as priorities to help strengthen the ability of provincial governments to deliver essential services to their communities. Ten PRDC projects were completed this quarter, totaling \$2.96 million, and an additional 21 projects have been approved for future projects in Iraq's 18 provinces.

- **Capacity Development in the Electricity Sector:** U.S. assistance in the electrical sector is focused on the completion of electric reconstruction projects, and the transition of responsibility to the GOI of efforts to rebuild, expand, and maintain a robust electrical network. This quarter, USAID and the Ministry of Electricity signed a Memorandum of Understanding that cements the commitment of the two to improving the Ministry's administrative systems and training, with an emphasis on fiscal management, budget preparation and execution, procurement and project management.

Budget Execution and the Public Finance Management Action Group (PFMAG)

A key area of focus for the U.S. Mission since early 2007 has been working to help Iraqi officials in ministries and provinces increase the efficiency and effectiveness of Iraqi spending on capital projects and reconstruction. Mission efforts, combined with significant high-level GOI support and increased technical capabilities among GOI officials, have yielded positive results. Ministry of Finance data indicate that through August 2008, ministries spent or advanced \$4.9 billion of their capital budgets, compared to \$2.8 billion through August 2007. Similarly, Ministry of Finance data indicate that through August 2008, provincial councils had spent or advanced \$1.2 billion, compared to \$316 million through August 2007. But while both ministries and provincial councils have made progress, impediments to spending remain: technical capacity, a difficult security environment, and absorptive capacity, among other factors.

The PFMAG was formally launched in July 2008 to help Iraqi ministries and provincial councils address these very issues, and to spend their allotted capital budgets. The PFMAG supplements budget execution efforts of the PRTs and is organized into Ministerial and Provincial Task Forces that focus on groups of ministries and provinces. Each task force consists of two-person teams that work to improve financial management practices in their assigned ministries or provinces, including promoting information sharing between related Government of Iraq spending units. The task force members include action officers, primarily from Multi-National Force-Iraq, and technical assistance advisors from the Treasury Department's Office of Technical Assistance. The PFMAG has begun to engage on a variety of issues, including the GOI's temporary shortage of physical currency needed for government payroll and pensions; Foreign Military Sales accounting; expediting provincial budget allotments; facilitating legacy Development Fund for Iraq payments; and monitoring the progress of allocating and spending the 2008 Supplemental Budget.

International Compact with Iraq (ICI) and Other Donor Assistance

Since the first annual International Compact with Iraq review meeting held in Stockholm in May 2008, the Iraqi government has undertaken a structured review of the mechanisms for implementing its ICI commitments and coordinating with international donors. The Iraqi government has provided that the policy planning functions of the ICI will be performed by the Prime Minister's Advisory Council (PMAC), and sectorally-focused Thematic Working Groups will be reinforced. In addition, the Iraqi government has

created a task force with key donors to plan and monitor progress towards fulfilling its commitments under the Paris Principles on Aid Effectiveness, which focus on greater donor coordination and Iraqi “ownership” of its own development strategy. Iraq and its major donor partners decided to end the International Reconstruction Fund Facility for Iraq (the IRFFI) in December 2010 and will meet in December 2008 to discuss how to wrap-up the IRFFI’s activities in an orderly fashion while continuing to support the goals of the ICI.

Other developments in the quarter include Japan’s decision to offer an additional \$300 million in soft loan projects and the announcement of the United Arab Emirates that it would cancel all of Iraq’s \$7 billion in Saddam-era debts. As of the quarter’s end, donor countries had committed grant and technical assistance funds to specific projects in the amount of \$5.57 billion – six percent more than their total initial grant pledges of \$5.26 billion.